

Memorandum

Date: January 7, 2003

To: Honorable Michael Peevey, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

From: Department of Water Resources

Subject: Rulemaking 01-10-024 – Allocation of Four Biomass Contracts

This memorandum requests that the California Public Utilities Commission ("CPUC") consider modifying Decision 02-09-053, which among other things allocated energy and capacity products delivered under the long-term power purchase contracts of the California Department of Water Resources ("DWR") amongst the Investor-Owned Utilities (IOUs). DWR recommends that the Commission consider modifying Table 1 of Decision 02-09-053 to include the allocation of agreements between DWR and Madera Power, LLC, Dinuba Energy, Inc., Sierra Pacific Industries (Sonora,) and Sierra Power Corp. (Terra Bella) to one or more of the IOUs. Madera, Dinuba, Sonora, and Terra Bella are biomass facilities located within California as described in the attached Table A.

I. Background

On December 7, 2001, DWR entered into contracts with Madera, Dinuba, Sonora, and Terra Bella for the purchase of unit contingent energy. On March 29, 2002, these agreements were extended for 90 days. On June 26, 2002, the Agreements were extended again with an expiration date of December 31, 2002. On December 31, 2002, the Agreements were extended once more to enable these four biomass facilities to seek long-term agreements with an IOU subject to CPUC approval. The Agreements provide for automatic termination if the CPUC has not allocated the Agreements to an IOU on or before January 31, 2003.

II. Potential Benefits of Allocating Biomass Agreements to an IOU

The potential benefits to allocating these Biomass Agreements to an IOU include the following:

Additional Supply: The extension of these four Agreements provides continued supply of 48 megawatts of additional capacity and energy to California's energy portfolio.

Support for Renewables: The allocation of these four Agreements provides continued generation of 48 MW from renewable sources.

Economic Impacts: The biomass facilities are important to the local economies in which each is situated. The allocation of these four Agreements provides additional time for the facilities to develop long-term agreements with an IOU for continued operation, which in turn will support local jobs and reduce landfill waste disposal costs.

Remittance: The allocation of these four Agreements provides a net positive cash flow for DWR because the contract price is less than the CPUC remittance rate for energy delivered to retail end-use customers.

III. Potential Concerns of Allocating Biomass Agreements to IOUs

Bypass of Interim Procurement Process: Three of these four biomass facilities were offered to Pacific Gas and Electric during the recent Interim Procurement Request for Offers Process and were evaluated through the Procurement Review Group process, but were not selected.

IOU Long Position: Over the next 4 to 5 months, the IOUs will be in a long position during some hours requiring sales of surplus energy. The IOUs are therefore not likely to voluntarily accept delivery of the energy associated with these agreements.

Costs associated with these contracts are not included in DWR's 2003 Revenue Requirement: The costs of these Agreements are not included in the current DWR Revenue Requirement for 2003. DWR will not collect a remittance for the energy from these Agreements unless they are allocated to an IOU and the energy is delivered to retail end-use customers.

For the above reasons, DWR recommends that the Commission consider allocating these four biomass agreements to an IOU. If you have any questions or need additional information, please contact me at (916) 574-2733.



Peter S. Garriss
Deputy Director
California Energy Resources Scheduling

Attachment

cc: (See attached list.)

Honorable Susan P. Kennedy, Commissioner
California Public Utilities Commission
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Honorable Carl W. Wood, Commissioner
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Honorable Geoffrey F. Brown, Commissioner
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Honorable Loretta M. Lynch, Commissioner
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Honorable Julie Halligan, Administrative Law Judge
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Service List Rulemaking 01-10-024 (via electronic mail)

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